MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

DMG5028 – MANAGEMENT ACCOUNTING 2

(For Diploma Students Only)

12 OCTOBER 2016
9.00 a.m. – 12.00 noon
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **7** pages with **4** questions.
2. Answer **ALL** questions.
3. Write your answers in the answer booklet provided

QUESTION 1

Part A

The management of Shakees Company is trying to decide whether to continue manufacturing a part of a sewing machine or to buy it from an outside supplier. The part called Jupiter, is a component of the sewing machine that the company produces.
The following information was collected from the accounting records and production data for the year ending December 31, 2015.

1. 9,500 units of Jupiter were produced in the Assembling Department.
2. Variable manufacturing costs applicable to the production of each Jupiter unit were: direct materials RM5.50, direct labor RM5.20, indirect labor RM0.55 and utilities RM0.60.
3. Fixed manufacturing costs applicable to the production of Jupiter were:

Cost Item	Direct	Allocated
Depreciation	RM2,500	RM1,100
Property Taxes	680	300
Insurance	450	650

   All variable manufacturing and direct fixed costs will be eliminated if Jupiter is purchased. Allocated costs will have to be absorbed by other production departments.
4. The lowest quotation for 9,500 units of Jupiter from supplier is RM85,000.
5. If Jupiter is purchased, freight and inspection costs would be RM0.55 per unit, and receiving costs totaling RM2,250 per year would be incurred by the Assembling Department.

Required:

Prepare an incremental analysis for Jupiter by showing how much net income will increase or decrease.

(13 Marks)

Continued...

Part B

Clean Diet Products is a diversified company that produces two different products from its hybrid chemical: stainless steel containers and plastic containers. Each week 880,000 grams of chemical input (CI) are processed at a cost of RM240,000 into 540,000 units of stainless steel containers and 160,000 units of plastic containers. The stainless steel containers has no market value until it is converted into 660,000 units of polish stainless steel container with the trade name ForMe. The additional processing cost for the conversion involves adding polishing ingredients of 250,000 grams at an amount of RM420,000.

ForMe is sold at RM15 per 3-tier container. The plastic container can be sold for RM26 per set. However, plastic container can be processed further into clear plastic container with microwavable lids. The process involves adding 270,000 grams of another chemical inputs (ACI) to the product. The ACI costs amounts to RM1.27 for each gram. The joint process will yield 220,000 units of clear plastic container with microwavable lids which can be sold at RM20 each.

The manager planned not to produce the clear plastic container with microwavable lids worrying that the incremental costs might be higher than the incremental revenue of producing the products.

Required:

1. As the management accountant of the company, provide an incremental analysis to the company to show the effect of net income on the manager's plan.

(9 Marks)

2. Is the manager's prediction correct? What should you suggest to the manager?

(3 Marks)

[TOTAL 25 MARKS]

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QUESTION 2

Part A

Lovely Joe Company is in the process of setting a selling price on a new component it has just designed and developed, Tetro. The following total costs estimated for this new component have been provided by the accounting department for a budgeted volume of 83,000 units.

	Total
Direct material	RM4,150,000
Direct labor	RM3,154,000
Variable manufacturing overhead	RM2,241,000
Fixed manufacturing overhead	RM1,826,000
Variable selling and administrative expenses	RM1,909,000
Fixed selling and administrative expenses	RM581,000

Lovely Joe Company management requests that the total cost per unit be used in cost-plus pricing its products. On this particular product, management also directs that the target price per set to provide a 20% return on investment (ROI) on invested assets of RM2,800,000.

Required:

1. Compute the desired ROI per unit for Tetro.

(2 Marks)

2. Assume that the company is using variable costing in its pricing decision. Compute the markup percentage and target selling price that will allow Lovely Joe Company to earn its desired ROI. (3 Marks)

3. Assume that the company is using total cost in its pricing decision. Compute the markup percentage and target selling price that will allow Lovely Joe to earn its desired ROI of 20% on this equipment.

(3 Marks)

Continued...

4. Assume that the company is using absorption costing in its pricing decision. Compute the markup percentage and target selling price that will allow Lovely Joe to earn its desired ROI of 20% on this equipment.

(3 Marks)

Part B

Prakash and Ramli Man Associates is a public accounting firm that offers two primary services, auditing and tax-return preparation. A controversy has developed between the partners of the firm as to who is contributing the greater amount to the bottom line. The area of contention is the assignment of overhead. The tax partners argue for assigning overhead on the basis of 80% of direct labor costs, while the audit partners argue for implementing activity based costing. The partners agree to use next year's budgeted data for the purpose of analysis and comparison. The following overhead data are allocated to develop the comparison.

Activity Cost Pools	Cost Drivers	Expected Use of Cost Drivers	Estimated Overhead (RM)	Expected Use of Cost Drivers Per Service	
				Audit	Tax
Employee training	Direct labor costs	RM4,700,000	RM564,000	RM2,600,000	RM2,100,000
Typing and secretarial	Number of reports	25,000	850,000	12,700	12,300
Computing	Number of minutes	76,750	283,975	48,400	28,350
Facility rental	Number of employees	515	1,905,500	325	190
Travel	Per expense reports	Direct	97,900	52,400	45,500

Required:

1. Compute the total overhead costs assigned to both services (audit and tax) of Prakash and Ramli Man by using traditional product costing as proposed by the tax partners, (2 Marks)

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2. Prepare a schedule showing the computations if the activity based overhead rates by using activity based costing. (4 Marks)

3. Prepare a schedule assigning each activity's activity overhead cost pool to each service. (6 Marks)
4. Comment on the comparative overhead cost for the two services under both traditional costing and ABC system. (2 Marks)

[TOTAL 25 MARKS]

QUESTION 3

Part A

Conna Company prepares monthly cash budgets. Relevant data from operating department are as follow:

	December	January	February
Sales	RM350,000	RM550,000	RM460,000
Direct material purchases	150,000	140,000	146,000
Direct labor	110,000	88,000	120,000
Manufacturing overhead	80,000	75,000	86,000
Selling and administrative expenses	75,000	82,000	79,000

Sales are 50% on account. Collections are expected to be 50% in the month of sale, 20% in the first month following the sale, 15% in the second month following the sale, 10% in the third month following the sale. 5% discount are given if the debtors follow the sales pattern given by the Conna Company. Sales on September, October, November totaled to RM372,000, RM420,000 and RM540,000 respectively.

All direct materials purchases are on account. Payments are expected to be 50% in the month of purchase, 30% in the first month following the month of purchase and balance are paid in the second month following the purchase. Accounts payables on 1st January totaled RM25,000.

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Required:

1. Prepare the following schedule for month of January:

   a) Expected collections from customers

   (9 Marks)

   b) Expected payments for direct material purchases

   (5 Marks)

Part B

1. Explain **THREE (3)** benefits of budgeting.

   (6 Marks)

2. Identify the **TEN (10)** budgets that comprise the master budget.

   (5 Marks)

[TOTAL 25 MARKS]

QUESTION 4

Kensonic Company makes customized baby doll. The management accountant of the company prepares the following standard cost card for its 250 grams baby doll:

KENSONIC COMPANY
Standard Cost Card

Baby Doll

Cost Element	Standard Quantity	x	Standard Price	=	Standard Cost
Direct material	3 grams		RM7.15		RM21.45
Direct labor	0.5 hour		RM10.80		RM5.40
Manufacturing overhead	3 hours		RM6.80		RM20.40

The company expected to produce 20,000 units of Baby Doll in 2016 and work 9,000 direct labor hours.

Actual results for 2016 are as follows:

1. 19,350 units of Baby Doll were produced.
2. Actual direct labor costs were RM104,469 for 9,700 direct labor hours worked.

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3. Actual direct materials purchased and used during the year cost RM410,400 for 57,000 grams.
4. Actual variable overhead incurred was RM35,000 and actual fixed overhead incurred was RM30,000.

Required:

Compute the followings:

1. Total material variance

(4 Marks)

2. Material price variance

(3 Marks)

3. Material quantity variance

(3 Marks)

4. Total labor variance

(4 Marks)

5. Labor price variance

(3 Marks)

6. Labor quantity variance

(3 Marks)

7. Total overhead variance

(5 Marks)

[TOTAL 25 MARKS]

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